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RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 PARIS 001744

SIPDIS

E.O. 19528: DECL: 12/22/19
TAGS: [EPET](#) [ENRG](#) [EOCN](#) [ZK](#) [ZJ](#) [RS](#) [FR](#)
SUBJECT: FRANCE: SPECIAL ENVOY MORNINGSTAR'S ENERGY CONSULTATIONS

Ref. State 107194.

Classified by Econ Minister Counselor Seth Winnick for reasons 1.4
(B) and (D).

¶1. (C/NF) Summary. French officials and industry leaders support diversifying energy supply/routes in Central Asia, market competition, an Azerbaijan-Turkey agreement for gas supply and transit issues. GDF-Suez joined Nord Stream and is interested in Nabucco and the Shtokman project. Total SA emphasizes links between Kazakhstan and Azerbaijan, criticized the terms for developing Iraqi oil fields, and supports Iranian gas projects in the long-term. The Total CEO considers refined products sanctions against Iran as counterproductive and questions the U.S. message to Indian companies vying for Iranian contracts. IEA highlights a sluggish recovery for Ukraine and urges energy policy reform/restructuring for a sustainable gas relationship with Russia. Gas is the default energy option for Europe but long-term gas contracts need more flexibility. End summary.

¶2. (U) On December 14-15, the Special Envoy for Eurasian Energy (S/EEE) Richard Morningstar, met with GOF officials, industry leaders and the IEA who gave an overview on current policies, activities, and future challenges in the Eurasian energy markets and Iran/Iraq (participants para 20).

GDF-Suez interest in Nabucco

¶3. (C/NF) GDF-Suez President Jean-Francois Cirelli expressed interest in eventual participation in the Nabucco gas pipeline project. A stake in Nabucco provides access to capacity in Central Asia and insurance for getting the gas out, Cirelli argued. GDF-Suez participation is doable in the next decade, once Nord Stream is concluded, and on a step-by-step basis, he specified.

¶4. (C/NF) GDF-Suez wants to see big companies (like RWE) in the project's partnership and an Azerbaijan-Turkey gas agreement. Cirelli raised doubts that Azeri gas is sufficient and thinks Iranian, Iraqi, and Turkman sources are "complicated." Cirelli pointed out that Nabucco has been too politicized and there is less urgency for it after the economic downturn/financial crisis.

Nord Stream now, Shtokman soon

¶5. (C/NF) GDF-Suez executives are negotiating with Gazprom for a nine percent stake in Nord Stream. The company will have a purely financial role with no operational, managerial or customer stakes in the project, Cirelli noted. The deal represents a "Gazprom risk"; the Russian company controls prices, gas delivery, and the infrastructure. However, the move serves a broader strategy to strengthen GDF-Suez's industrial partnership with Gazprom. Cirelli has his eye on the giant Shtokman field where GDF-Suez wants to market LNG when it comes on stream, a project in which Gazprom holds the majority interest.

¶6. (C/NF) GDF-Suez executives told us that Nord Stream folds into

the company's energy diversification business model; it will bring more gas to northern Europe, reinforce interdependence between Europe and Russia, and complement supply routes through Ukraine, objectives consistent with USG interests.

Total SA on oil and gas links

¶17. (C/NF) Total CEO Christophe de Margerie stressed to Ambassador Rivkin and S/EEE the need for links between Kazakhstan and Azerbaijan to get Kashagan crude to the market.

Southern Corridor Gas Pipelines

¶18. (C/NF) On linking Turkmenistan to Azerbaijan, Total's legal department is convinced that a pipeline would require approval by the five Caspian Sea littoral states. De Margerie prefers gas tanker shipments, a strategy that can also allay NGO criticisms on the environmental impact of energy installations in the region.

¶19. (C/NF) Regarding Nabucco, the Total CEO said Turkey is a problem and understood Azerbaijan will consider other options, including Russia as a buyer. Turkey blocked Electricite de France (EDF) from participating in Nabucco, he recalled, when it turned to South Stream. South Stream allows EDF to work with Russia and compete with Italy and Germany in the region, he claimed, and implied strongly that the EDF decision to join South Stream was actually made at the Elysee. Nabucco has no gas, -- a situation that could change if the Chinese enter the deal --, and argued that current low gas prices discourage investment in pipelines. The cost of accessing energy has increased, he said, noting the Shtokman gas field will cost 30

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billion euros. Financing is an issue for the industry, which is why take-or-pay gas contracts are used, De Margerie explained.

Iraq - not interested, yet

¶110. (C/NF) On Iraq's second round of auctions for the rights to develop oil fields, Total said the terms were not profitable for a long-term investor. The flat fee per barrel the Iraqis offered for developing the Majnoon and West Qurna fields was too low to recover costs, De Margerie underscored, and investment costs are unknown. The country lacks security, stability and a skilled work force, he continued. In the end, Total joined the Chinese-led consortium and got a 25 percent stake in the Halfaya field. Total supported opening the Iraqi market but won't cut a big deal now; it will get its foot in the door as a contractor and wait for better opportunities down the road as an operator.

Iran: the U.S., the Indians

¶111. (C/NF) The Total CEO favored gas projects in Iran but said there is no contract on the table, "it's worse than Iraq." Pursing gas projects is "politically impossible," he conceded, but asked why the USG did not support talks on gas projects. The U.S. position, S/EEE told De Margerie, is that when we settle the nuclear issue with Iran, gas projects will move forward.

¶112. (C/NF) De Margerie asked why nothing has been said to India's Oil and Natural Gas Corporation which is active in Iranian energy markets. He then pointed out the negative impact an embargo on refined petroleum products would have on the Iranian people who are in need of fuel; it will be a "disaster" for U.S.-French interests and a plus for the Iranian regime. Fuel sanctions won't impact the petroleum products market, he said, noting that the Indians and the Chinese are replacing Total.

Total post-Copenhagen

¶113. (C/NF) Total's long-term goal is to develop oil and gas production more efficiently with an aim to reduce CO2 emissions, De

Margerie said. Total invests in research on renewable energy sources (RES), he added. But he cautioned that RES development relies on subsidies and commercial viability is decades away; RES can't replace fossil fuels. World economic growth requires access to a number of sources - gas, oil, nuclear, coal, De Margerie asserted. Copenhagen negotiators need to remember the issue is "energy and the environment," not just the latter, he concluded.

IEA on Ukraine/Russia prospects

¶14. (C) IEA energy analyst Ian Cronshaw said Ukraine looks unstable due to poor fundamentals (industrial output, inflation), although gas policy changes could make important improvements post presidential election (January 2010). Gas is still priced below cost for households and utilities, Cronshaw observed. Ukraine has paid its gas bill so far and atmospherics between Russia and Ukraine have improved; relations are on a longer-term basis following a ten-year supply agreement that is linked to international prices, he said. However, for a sustainable gas relationship with Russia, Ukraine energy policy reform and restructuring are essential: improve energy efficiency, cost-reflective pricing, and transparency/governance.

¶15. (C/NF) Russia is feeling the decrease in European gas demand but still relies on Ukraine for transit to meet peak needs in both gas and power sectors, Cronshaw told us. European stocks are good, but eastern and southern Europe would suffer if a prolonged supply interruption occurs, he added. Tension persists between Russian gas suppliers and European buyers, the IEA analyst noted. Europe shifted to the spot market where gas is half the cost of Russian long-term contracted prices. Moreover, the lack of flexibility of take-or-pay contracts raises doubts about their commercial viability; we need to think about alternative business model contracts, Cronshaw and Ambassador Jones, IEA Executive Director commented.

Gas, Europe's energy by default

¶16. (C/NF) European energy security can be strengthened by an integrated internal market, more robust interconnections and reversible pipelines for transporting gas where it is needed, Cronshaw stressed. The EU 27 must harmonize their regulatory regimes, he highlighted. Given the investment requirements for South Stream and the lack of big contracts, the project seems unrealistic whereas Nord Stream will come through, Cronshaw predicted. Energy diversification is the goal but EU governments struggle to finance RES projects. Financing nuclear is a problem and coal is not environmentally compatible; gas is the energy by default, he

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concluded. Eighty percent of European power plants built in the last 10 years were gas, Cronshaw reported.

GOF gets the USG message

¶17. (C/NF) On December 14, S/EEE described USG goals in Europe and Central Asia (reftel). GOF officials provided a largely consistent view that France sees European energy security strengthened by internal energy market organization, increased interconnectors and infrastructure projects. On South Stream, S/EEE noted that we neither support nor oppose the pipeline but had doubts on its technical and commercial viability. From a political symbolism perspective, participation by the government-owned EDF lends credibility to the project, S/EEE commented. He reiterated the importance of Nabucco and the need to diversify gas resources and bolster market competition in the region.

Comment

¶18. (C) The French are not out front in realizing a European concerted effort, but do share U.S. concerns over energy diversification in Central Asia. French industrial firms' activity supports the GOF's priority for a triangular relationship - Europe, Central Asia, and Russia. Total SA, GDF-Suez, and EDF have a

foothold in the region's major projects: Nord Stream, South Stream, Kashagan (Kazakhstan), Shtokman (Russia), Shah Deniz (Azerbaijan).

¶19. (SBU) Meeting participants:

-- Georges Serre, Deputy Director General for Global Affairs, Development and Partnerships (DGM), MFA; Sylvan Fourriere, Chef Energy Pole; Christophe Sammartano, Energy Officer (Central Asia, Russia, CIS) for the same directorate. Valerie Luebken, U.S. Desk Officer, Office of American and Caribbean Affairs, MFA.
-- Pierre-Marie Abadie, Director for Energy, Directorate for Energy and Climate Change, Ministry of Ecology, Energy, Sustainable Development and the Sea (MEEDDM); Carole Lancereau, Head, International Unit, Directorate for Energy and Climate Change, for the same ministry.
-- Ambassador Richard Jones, Deputy Executive Director, IEA; Ian Cronshaw, Head, Energy Diversification Division; Tim Gould, Program Manager, Caspian, Caucasus, Southeast Europe, Directorate of Global Energy Dialogue, IEA.
-- Jean-Francois Cirelli, Vice-Chairman and President, GDF-Suez; Philippe Hochart, VP Caspian, Iran, Global Gas and LNG; Jean-Marie Dager, Executive VP; Denis Simmoneau, Diplomatic Advisor, GDF-Suez.
-- Christophe de Margerie, CEO Total SA; Hubert des Longchamps, VP, International Relations, Total SA.

¶20. (SBU) This cable was cleared by Ambassador Richard Morningstar.

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